MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2020/2021

BAW4614 – ADVANCED FINANCIAL ACCOUNTING & REPORTING

(All sections / Groups)

5 MARCH 2021
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 10 pages (excluding the cover) with 4 Questions only.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please print all your answers in the Answer Booklet provided.

QUESTION 1

Limau Bhd operates in the electronics industry. Nancy, an ICAEW Chartered Accountant, was recently employed in the finance department as financial controller. She has been on a career break for the last two years whilst travelling. She reports to Rain, the finance director. Rain was part way through preparing the financial statements for the year ended 31 March 2020 when he was suddenly called away due to a family crisis.

All the directors of Limau Bhd receive a bonus linked to the profit for the year. Before Rain left, he said to Nancy that he hoped she would be able to complete the financial statements without him and that he did not expect her to make any major changes as he is relying on this year's bonus. Nancy is aware that Rain is in personal financial difficulties. Rain hinted to Nancy that there may be a permanent position for her if she presents results in line with the profit expectation.

You are a newly-qualified ICAEW Chartered Accountant, assisting Nancy. The following balances have been extracted from the nominal ledger of Limau Bhd at 31 March 2020.

	Notes	RM	RM
Ordinary share capital (800,000 shares)			900,000
Retained earnings at 31 March 2019			81,270
Land and buildings	(1)	1,391,250	
Plant and equipment	(1), (2)	330,400	
Convertible bonds	(3)		300,000
Trade and other receivables		136,600	
Inventories at 31 March 2019		109,700	
Cash at bank		9,200	
Trade and other payables			123,200
Revenue	(4)		2,737,800
Purchases		1,390,000	
Administrative expenses		774,400	
Suspense account	(6)	720	
		4,142,270	4,142,270

Nancy has passed you the following information to enable you to finalise the financial statements as she says that you will be more up to date with latest financial reporting standards than her.

Additional information:

(1) The following information relates to Limau Bhd's property, plant and equipment

	Land and buildings	**Plant and equipment**
	RM	**RM**
Cost (land RM500,000)	1,926,000	472,000
Accumulated depreciation at 31 March 2019	534,750	141,600

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No depreciation has currently been charged for the year ended 31 March 2020. The straight-line method of depreciation is used. Buildings have a 40-year useful life and plant and equipment have a 15-year useful life.

All expenses associated with property, plant and equipment are recognised in cost of sales.

(2) Limau Bhd began to construct specialized equipment on 1 October 2019. On the same date, Limau Bhd borrowed RM80,000, to part finance the construction of the specialized equipment. The funds borrowed were immediately spent on the construction on 1 October 2019. The specialized equipment was assessed as a qualifying asset under MFRS 123 Borrowing Cost.

The loan is repayable on 30 September 2021 and has an interest rate of 5% per annual payable every six months. No interest on the loan has yet been recognized by Limau Bhd.

A total of RM120,000, including the RM80,000 borrowed, had been spent on the construction of the specialized equipment. The construction was still in progress at the year-end. The only accounting entries made at 31 March 2020 were to credit cash RM40,000, being the additional cash paid out in excess of the loan, and debit plant and equipment (cost) RM40,000.

(3) On 1 April 2019 Limau Bhd issued 30,000 5% RM10 convertible bonds at par. On 31 March 2022 each bond can be redeemed for cash at par or converted into two ordinary shares. The interest due on the bond at 31 March 2020 was unpaid. The equivalent effective interest rate on similar bonds without conversion rights is 8% pa. The only accounting entries made at 31 March 2020 in respect of the bond were to debit cash and credit convertible bonds with RM300,000.

(4) On 1 December 2019 Limau Bhd made sales to a new customer totaling RM61,200. This included goods with a free 12-month after sales support package. The full amount was recognized in revenue and receivables. The normal stand-alone selling price for goods and after sales support package are RM61,200 and RM10,800 respectively.

(5) Inventories at 31 March 2020 were counted and correctly valued at RM70,000.

(6) On 1 December 2019, Limau Bhd purchased some inventories from an overseas supplier for RMB12,000 and correctly recorded this transaction using the spot rate at that date. The inventories were still held by Limau Bhd and included in the closing inventory as at 31 March 2020.

The invoice was unpaid at 31 March 2020. It was included in trade payables at the spot rate on 31 March 2020 with the other side of the entry being posted to the suspense account.

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The spot exchange rates are as follows:
1 December 2019: RMB1: RM0.62
31 March 2020: RMB1: RM0.68

(7) The income tax charge for the year has been estimated at RM92,000. This is the appropriate estimate of the amount payable in respect of the year ended 31 March 2020.

Requirements:

(a) Prepare for Limau Bhd a statement of profit or loss for the year ended 31 March 2020 and a statement of financial position as at that date in a form suitable for publication. Show how the suspense account is cleared. (20 marks)

(b) Discuss whether each of the fundamental principles of the ICAEW's Code of Ethics have been followed by Nancy. (5 marks)

(c) The MASB's Conceptual Framework refers to five elements of the financial statements. Give one example of each of these elements from the financial statements of Limau Bhd, explaining how each meets the definition of the relevant element. (5 marks)

(Total: 30 marks)

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QUESTION 2

Jasmine Bhd operates in the manufacturing and retail sectors. Draft financial statements for the year ended 30 September 2019 have been prepared by the financial controller. Draft profit for the year was RM2,070,000. However, the following outstanding issues have been identified.

(1) Jasmine commenced a three-year lease to acquire plant on 1 October 2018.The lease payments are RM45,000 paid annually in advance and the interest rate implicit in the lease is 8% per annum. Jasmine has estimated that the useful life of the plant will be six years. There is no option to purchase at the end of the lease term.

As an incentive to enter into the lease, Jasmine received RM7,500 from the lessor on 1 October 2018. Jasmine recognized the lease as operating lease under the old MFRS 117 standard. The only accounting entries made were when payment made, by crediting cash of RM37,500, credit other income RM7,500 and debit rental expenses RM45,000.

(2) On 1 January 2019 Jasmine Bhd acquired a machine for RM162,500. The machine has an estimated useful life of 10 years with no residual value, and is being depreciated on a straight line basis.

Jasmine received a government grant for RM75,000 to assist with the purchase of this machine on the same date. As there are no conditions attached to the grant, the financial controller credited the full RM75,000 to other income. Depreciation was recognised in the period based on the full cost of the machine. On further investigation, it appears that Jasmine Bhd's accounting policy, in relation to government grants, is to use the netting-off method.

(3) On 1 June 2019 a claim of RM70,000 was made against Jasmine Bhd by a customer, KMY Bhd, for supplying faulty goods. The goods were sold to KMY Bhd for RM42,000. However, KMY Bhd had sold the goods on to a number of its customers and, as a result, has claimed an additional RM28,000 in compensation for the damage to its reputation. On further investigation it appears that this is unlikely to reoccur. Jasmine Bhd's lawyers believe that KMY Bhd is likely to win any court case and therefore has recommended that Jasmine Bhd makes an out-of-court settlement as soon as possible. The lawyers have estimated the probabilities for the following levels of damages:

Damages payable	**Probability**
None	10%
RM21,000	20%
RM42,000	60%
RM70,000	10%

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No accounting entries have been made at 30 September 2019 in relation to the claim made by KMY Bhd.

At 1 October 2018 Jasmine Bhd had 1,200,000 RM1 ordinary shares in issue. On 1 February 2019 it made a 1 for 3 rights issue at RM3.20 per share. The market price of one Jasmine Bhd ordinary share at that date, immediately before the rights issue, was RM3.80.

Requirements:

(a) Explain the required IFRS financial reporting treatment of Issues (1) to (3) above in Jasmine Bhd's financial statements for the year ended 30 September 2019, preparing all relevant calculations. (13 marks)

(b) Calculate Jasmine Bhd's:
- revised profit for the year ended 30 September 2019. (4 marks)
- basic earnings per share. (3 marks)

(Total: 20 marks)

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QUESTION 3

Huge plc invested in Silk Ltd by acquiring 8,000,000 ordinary shares in Silk Ltd on 1 January 2020 in a share exchange. One new ordinary share in Huge plc was issued for every two ordinary shares in Silk Ltd acquired. The market price of one new Huge plc share at that date was RM4.

The share issue transaction has not yet been recorded in the draft financial statements of Huge plc.

The draft summarized statements of financial position of the two companies at 31 March 2020 are shown below:

	Huge plc RM	**Silk Ltd RM**
ASSETS		
Non-current assets		
Property-plant and equipment	5,200,000	12,000,000
Intangible assets	6,000,000	-
	11,200,000	12,000,000
Current assets		
Inventories	6,000,000	8,000,000
Trade and receivables	10,600,000	2,800,000
Cash and cash equivalents	600,000	1,200,000
	17,200,000	12,000,000
Total assets	28,400,000	24,000,000
EQUITY AND LIABILITIES		
Ordinary share capital (RM1 per share)	16,000,000	10,000,000
Retained earnings	(5,200,000)	8,400,000
Total equity	10,800,000	18,400,000
Non-current liabilities		
Provisions	7,800,000	2,000,000
Current liabilities		
Trade and other payables	9,800,000	3,600,000
Total equity and liabilities	28,400,000	24,000,000

Additional information:

(1) Silk Ltd's profit for the year was RM6.4 million. Profits accrued evenly over the year. No dividends were paid or proposed during the period.

(2) The fair value of the assets and liabilities of Silk Bhd at 1 January 2020 was the same as their carrying amount with the following exceptions:

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- The fair value of brands not previously recognised has been quantified at RM800,000. Huge plc's management are of the opinion that these brands have an indefinite life. At the year end the recoverable amount of the brands was assessed at RM720,000.
- The fair value of inventory was RM400,000 greater than it carrying amount. One fifth of this inventory remained on hand at the year end.
- The allowance for receivables was understated by RM600,000. This allowance was also still required at the year end.
- Equipment had a fair value of RM2 million in excess of it carrying amount. The remaining useful life of this equipment was five years at 1 January 2020.
- These fair values have not been recognized in the separate financial statements of Silk Ltd.

(3) In February 2020, Huge plc sold inventory with an invoice value of RM1,800,000 to Silk Ltd. One quarter of the inventory remained in Silk Ltd's factory at 31 March 2020. Huge plc calculates the transfer price of goods using a mark-up of 50%.

(4) Huge plc has recently reached an agreement with tax authority regarding its tax payable for the year ended 31 March 2019. It has agreed to pay an additional RM400,000 income tax. No liability for this amount has been included in the draft statement of financial position at 31 March 2020.

(5) Huge plc raised a RM500,000 invoice for intra group management fees due from Silk Ltd on 25 March 2020. This invoice was not received by Silk Ltd until 3 April 2020 and has not been included in Silk Ltd's draft financial statements. Huge plc has included the amount due of RM500,000 in trade receivables. There were no other outstanding balances between the two companies at 31 March 2020.

(6) Huge plc prefers to measure goodwill and the non-controlling interest using the proportionate method wherever possible. Following the annual impairment review of goodwill at 31 March 2020 an impairment loss of RM200,000 needs to be recognised in respect of Silk Ltd.

Requirements:

(a) Illustrate the consolidated statement of financial position of Huge plc as at 31 March 2020. (20 marks)

(b) Describe any differences between IFRS and UK GAAP in respect of the financial reporting treatment of the gain on bargain purchase arising on the business combination and non-controlling interest. (5 marks)

(Total: 25 marks)

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QUESTION 4

On 1 April 2019, Big plc had a number of subsidiary companies and one associate company. During the year ended 31 March 2020. Big plc acquired 80,000 of Peace Ltd's 100,000 RM1 ordinary shares. There were no other changes in the composition of the group during the year ended 31 March 2020.

The group's consolidated statement of profit or loss for the year ended 31 March 2020 and consolidated statement of financial position as at that date are set out below, together with some additional information.

Consolidated statement of profit or loss for the year ended 31 March 2020 (extract)

	RM
Profit from operations	1,379,200
Finance cost	(70,000)
Share of profit of associate	251,600
Profit before tax	1,560,800
Income tax expense	(390,000)
Profit for the year	1,170,800
Profit attributable to:	
Owners of Big plc	879,000
Non-controlling interest	291,800
	1,170,800

Consolidated statement of financial position as at 31 March

	2020 RM	2020 RM	2019 RM	2019 RM
ASSETS				
Non-current assets				
Intangibles		3,599,400		1,539,000
Investment in associates		1,247,200		1,028,200
		4,846,600		2,567,200
Current assets				
Trade and other receivables	803,800		799,200	
Cash and cash equivalents	3,200	807,000	50,800	850,000
Total assets		5,653,600		3,417,200
EQUITY AND LIABILITIES				
Equity attributable to the owners of Big plc.				
Ordinary share capital	1,440,000		1,000,000	
Share premium account	300,000		200,000	
Retained earnings	1,430,000	3,170,000	717,000	1,917,000
Non-controlling interest		714,400		517,200

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Current liabilities				
Trade and other payables	133,200		117,000	
Income tax payable	410,000		360,000	
Bank overdraft	1,226,000	1,769,200	506,000	983,000
Total equity and liabilities		5,653,600		3,417,200

Additional information:

(1) The consideration to acquire the shares in Peace Ltd consisted of 100,000 of Big plc's own RM1 ordinary shares, with a market value of RM2.50 per share, and a considerable cash sum. Two months after the acquisition of Peace Ltd, Big plc made a further issue of ordinary shares for cash, unrelated to the acquisition of Peace Ltd.

(2) At the date of acquisition, the statement of financial position of Peace Ltd showed the following assets and liabilities.

	RM
Intangibles (development expenditure)	640,000
Trade and other receivables	104,000
Cash and cash equivalents	3,000
Trade and other payables	(96,000)
	651,000

The carrying amounts of all assets and liabilities above were equal to their fair values, with the exception of intangibles, which had a fair value of RM100,000 in excess of their carrying amount. Goodwill arising on the acquisition of Peace Ltd was RM312,000.

(3) The consolidated statement of changes in equity for the year shows that Big plc paid ordinary dividends during the year.

(4) Consolidated intangibles comprise the goodwill arising on the acquisition of Peace Ltd which has suffered no subsequent impairment, and development expenditure capitalised in accordance with IAS38: *Intangible Assets*. The development expenditure is being amortised over its estimated useful life. Since acquiring Peace Ltd, the group has spent cash of RM1,900,000 on new development projects. All of this expenditure was correctly capitalized.

(5) Trade and other payables include accrued interest of RM2,000 (2019: RM3,000).

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Requirements:

(a) Prepare a consolidated statement of cash flows for Big plc for the year ended 31 March 2020, including a note reconciling profit before tax to cash generated from operations, using the indirect method. A note showing the effects of the acquisition of Peace Ltd is not required. (20 marks)

(b) Explain the nature, purpose, and accounting treatment for the lease classifications under FRS 102: *Leases*. (5 marks)

(Total: 25 marks)

End of Paper.